# *Brownfields*
# *“Nuts & Bolts”*
# The Private Financing Climate


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Passion. Expertise. Results.


# Partnerships are Key to Brownfield Financing – But Who Should Play?

- **Public sector**
  - Federal, state, and range of local governments
- **Quasi-public sector**
  - Development, port, housing authorities
- **Non-profits**
  - CDCs, CBOs, universities, cultural-social institutions
- **Private sector**
  - Lenders, developers, investors, transaction support partners

# Brownfields Financing Challenges: Finding the Right Public-Private $$ Mix

## The key is knowing your site

- Reuse objectives
- Specific site barriers
- Site economics
- Site redevelopment schedule
- Applicable resources and tools
  - *cash*
  - *technical/non-cash*


# *Attracting Private Capital: Timing Questions*

Like any real estate deal, *brownfield projects* need to answer 3 key $$$ questions –

- What's needed, how much, in what order, and who has it?
- What is the staging/time frame for necessary project components?

- How can costs be recovered or reduced?


# *Attracting Private Capital: Meeting Traditional Needs in a Brownfields Context*

**3 key $$$ needs –**

- ***Operating capital*** – short-term financing to fund pre-development activities
- ***Construction loans*** – short- or medium-term financing to cover construction costs
- ***Long-term financing*** – conventional mortgage loans with a maturity of 25 to 40 years

# *Brownfield Financing Challenges*

Attracting private sector investment to brownfield sites – public and non-profit sectors can help by providing assistance in…

- Reducing risk

- Maximizing return

***…Easy in theory, difficult in practice -- especially at tough sites or in tough market locations***

- Role of redevelopment financing incentives

…***This is how communities can establish the climate that invites private investment***

# Brownfield Financing Challenges

## Impact of Contamination on Financing Redevelopment

Conceptualizing and Planning the Project
Economic Analysis for Marketing the Project

**Dealing with Stigma**

**$ for Site Assessment**

**Additional Underwriting/Site Development/R.O.R. Costs**

**$ for Preparing a Cleanup Plan and Taking It Through VCP/State/Local Regulatory Agencies**

**$ for Cleanup**

"Regular" Real Estate Construction/Development Costs
When Site is "Shovel Ready"

# *Most Common Private Real Estate Financing Sources*

- **commercial banks**
- **mortgage banks and brokers**
- **pension funds/institutional investors**
- **property owners self-financing/owners' equity**

# Lender/investor Issues: *Why Do they Act the Way They Do When You Say "Brownfields"?*

**INSTITUTIONAL FACTORS:**

- **Market policy-making structure**
- **Sphere of activity or market niche**
- **Level of sophistication and knowledge**
- **Comfort level with new cleanup technologies**
- **Past experience**

# Lender/investor Issues: *Why Do they Act the Way They Do When You Say "Brownfields"?*

**PROCESS FACTORS:**

- **Does the project make good credit sense?**
- **Are regulators comfortable with the proposed approach?**
- **Is the bank officer comfortable with:**
  - **Developer/developer expertise in brownfields?**
  - **Environmental/technical consultants?**
  - **Proposed end-use (i.e., industrial v. residential)?**

# Lender/investor Issues: *Why Do they Act the Way They Do When You Say "Brownfields"?*

Tools that help them expedite reuse

- **Legal tools**:
  - NFA letter, indemnifications, deed restrictions, institutional controls, covenants not to sue
- **Private financial tools**:
  - Escrows, collateral discounts
- **Public financial tools**:
  - Grants, loans, tax credits, guarantees, other mechanisms
- **Environmental insurance**
  - Is it available? Does it make financial sense for the project?

# Lender/investor Issues: *Why Do they Act the Way They Do When You Say "Brownfields"?*

**OVER-RIDING CONCERNS:**

- Certainty of collateral value over time
- Soundness of marketing plan – is the end use something that anybody wants?
- Ongoing compliance with institutional controls
- Cleanup cost/financing and timing concerns
  - VCP process
  - Grant application, approval, and disbursement time

# *Singing the private sector financing tune…*

*Federal tax incentives that can be linked to brownfield redevelopment – all at little or no cost to the project….*

- **Rehabilitation tax credits**
- **Low income housing tax credits**
- **New markets tax credits**
- **Energy Policy Act of 2005 tax credits**
- **Brownfield expensing**

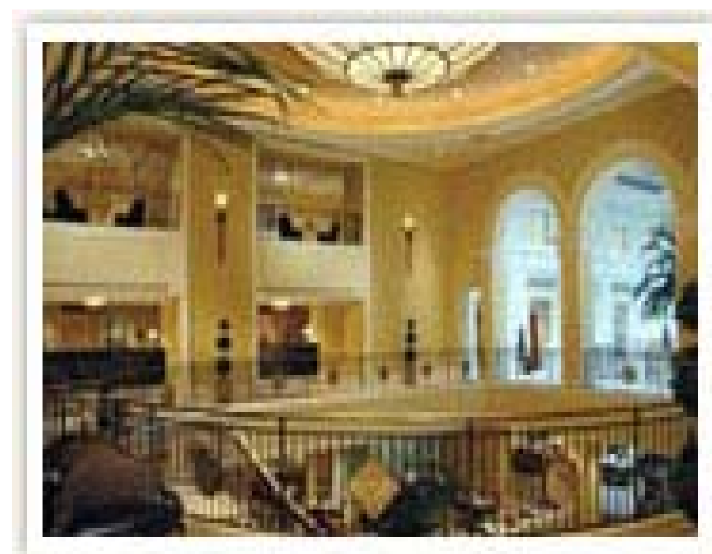
# Advantages of Using Tax Incentives in Brownfield Projects

- Increase project’s internal rate of return
- Ease borrower’s cash flow by freeing up cash ordinarily needed for tax payments
- Some credits can be sold for cash, or syndicated to attract additional investment
- Credits attract different players to the redevelopment table
- Not subject to competitive public grant process

# *Rehabilitation Tax Credits*

- Taken the year renovated building is put into service
- 20% credit for work done on historic structures, with rehab work certified by state
- 10% credit for work on “non-historic” structures build before 1936; no certification required

# Rehab tax credits: Renaissance Grand Hotel – St. Louis, MO



- Developer led public-private partnership that renovated two defunct historic landmark hotels, in addition to 23-story new construction
- Project included the old Statler Hotel, built in 1917 -- the 1st air-conditioned hotel in the country
- Kimberly-Clark Corp provided tax equity for several million dollars in **historic rehabilitation tax credits**
- ***Credit as leverage*** – Financing package included tax exempt bonds, brownfield cleanup tax expensing, empowerment zone tax incentives

# Old Northampton Fire Station -- Northampton, MA

- Old Northampton Fire Station, built in 1872, shut down in 1999
- 13,000 sq. ft. building redeveloped into office space, small scale retail
- Adjoining property, used by the fire department for maintenance activities, being redeveloped into a residential and studio space
- Total project costs -- $1.6 million
- **Cash flow impacts of rehab tax credits a key part of the economic viability of this project**

# *Low-Income Housing Tax Credits*

- **Can encourage capital investment in affordable housing projects on brownfield sites, other targeted sites**
  - *States get a population-based allocation for distribution to communities and non-profits*
  - *Louisiana has received* ***$123 million****, from 1987 to 2005, supporting* ***40,000*** *units*

# LIHTCs: Albina Corner – Portland, OR

- 3/4 acre Albina Corner is adjacent to a bus line and near a major light rail station
- Area is gateway to several inner-city neighborhoods, where small scale contaminants have deterred reuse.
- Site redeveloped into a mixed-use area that includes 48 units of low-income housing built over 12,000 square feet of commercial space; includes a child care center and a second floor courtyard and play lot
- **LIHTCs** one of 14 funding sources.

# LIHTCs: Brian J. Honan Apartments – Boston, MA

- Allston-Brighton CDC saw an opportunity to develop former Legal Seafoods fish processing plant into affordable housing
- Environmental assessment funding, **low-income housing tax credits** key parts of financing incentive package needed to attract capital, convince funders that the project would work
- ***Result*** – affordable units in a sustainable development: green energy, pedestrian access to groceries, shops, transit

# New Markets Tax Credits

- Gives investors federal tax credits for making equity investments in designated Community Development Entities (CDEs) for use in low-income communities

- CDEs use their allocations to make loans or investments in "qualified businesses" and development activities – which may include:
  - ***Community facilities such as health or child care***
  - ***Charter schools***
  - ***For-profit and non-profit businesses***
  - ***Homeownership projects***

  - **$1.5 billion** in NMTCs allocated in 2006 to 27 CDE's identifying LA as a market service area

# New Markets Tax Credits: Bethel Center – Chicago, IL

- Bethel New Life, a faith-based CDC, used $1.5 million in NMTC allocation to develop 23,000 sq.ft. Bethel Center on an abandoned site adjoining an elevated rapid transit station
- Center houses employment and day care services, 6 commercial storefronts
- LEED gold certified

# Energy Efficiency /Alternative Energy Source Tax Credits

**ENERGY POLICY ACT OF 2005 TAX CREDITS**

- Commercial building deduction of up to $1.80 per sq. ft. for buildings that achieve a 50% energy savings target
  - *Up to 60 cents per sq. ft. for buildings meeting at least a $16^{2/3}$ % target*
- 30% credit business solar energy tax credit, from 1/1/06 thru 12/31/07
  - *10% starting 1/1/08*

# *Brownfield Cleanup Expensing Tax Incentive*

- **Deduction pegged to cleanup costs, which allows new owners to recover cleanup costs in the year incurred; only incentive targeted to private site owners**
- **Can include:**
  - ***Site assessment, cleanup, monitoring costs***
  - ***Costs related to install/monitor institutional controls***
  - ***State VCP fees and associated costs***
  - ***Removal of demolition debris***

- **Original incentive expired 12/31/03; most recently extended until 12/31/07 (retroactive to 1/1/06)**

# Alliance Environmental/Goodwill Fire Department – West Chester, PA

- 8.5 acre former pharmaceutical property and dump site in economically distressed area
- Cleaned and redeveloped by Alliance Environmental
- Now, location of Good Will Business Park:  100,000 sq. ft. of retail, public service facilities including fire department and district court
- Incentive provided Alliance with nearly $800,000 in tax relief

# T.R. Thickston Glass Company, Bloomington, IN

- Former recycling center with foundry waste
- Project spearheaded by environmental consulting firm familiar with tax incentive
- **Incentive saved about $80,000 in tax liability**, used to support cash flow until redevelopment occurred
- ***Result* --** Site leased by T.R. Thickston Glass Company; created 3 jobs

# Charlie's contact information

***For further information……….***

***For additional examples and information….***

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